



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q2 FY20 Result Update@ Dalal&Broacha

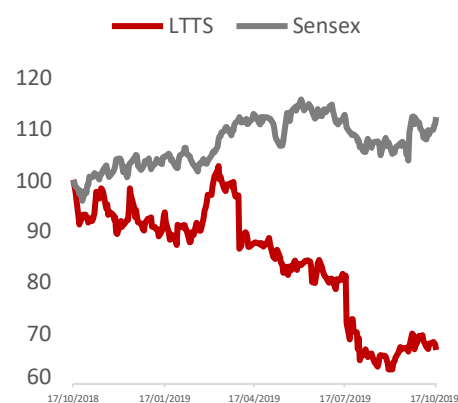
ACCUMULATE

Current Price	1644
Target Price	1695
Upside	3%
52 Week Range	1400/1818

Key Share Data

Market Cap (Rs.Bn)	171
Market Cap (US\$ Mn)	2404
No of o/s shares (Mn)	104
Face Value	2
Monthly Avg. Vol(BSE+NSE) '000	133
BSE Code	540115
NSE Code	LTTS
Bloomberg	LTTS:IN

Price performance



% Shareholding	Sept-19	Jun-19
Promoters	74.97	74.97
Public	25.03	25.03
Others	-	-
Total	100	100

LTTS reported its Q2FY20 performance which were slightly below our estimates on the revenue front and PAT front and in-line with our estimates on the EBITDA front

- Revenue in Dollar terms was reported at USD 198 Mn, +2.1% qoq/+11.7% yoy and -2% below our est.
- Revenue in INR terms stood at INR 14,021 Mn, +4.1% qoq/+10.7% yoy and -1.4% below our est.
- EBITDA stood at INR 2,832 Mn, +3.9% qoq/+23.8% yoy and in line with our estimate of INR 2,820 Mn ; EBITDA translated into a margin of 20.2% in Q2 unchanged from Q1FY20 and +210 bps from Q2FY19
- PAT stood at INR 2,058 Mn, +0.9% qoq/+7.7% yoy and -2.3% below our est.
- EPS for the quarter stood at INR 20.4, vs INR 19.7 / INR 18.5 in Q1FY20 / Q2FY19 respectively
- Revenue growth guidance for FY20e has been reduced from 12-14% in the previous quarter to 10%

Vertical-wise Takeaways:

- Transportation (35% of revenue)** grew 2.3% qoq and 22% yoy. Customer specific issues dragged growth in Q2 and expect Q3 to be muted
- Telecom & Hi-Tech (20.6% of revenue)** degrew -6% qoq and -14% yoy owing to customer specific slowdown in Telecom Infra. Expect growth in customer to revive from Q4FY20 and other sub-verticals to offset slowdown
- Process (16% of revenue) and Medical Devices (8.8% of revenue)** grew at 8% qoq and 12% qoq. Expect healthy growth in both these segments going ahead

Concall Key Takeaways:

- Inspite of Wage hike in the quarter, company managed to maintain EBITDA margin at 20.2%. No further hikes are expected in H2FY20
- Reduced growth guidance on account of following factors: delay in decision making and therefore deal closure and cautious spending by customers mainly due to on-going trade war and global slowdown
- Wage hike impacted margins by 160 bps which was offset by absence of Visa costs and USD/INR depreciation.
- The other income - Treasury income was Rs.100 mn, SEIS credit of Rs. 200 mn and forex income of Rs. 70 mn
- The DSO and customers receivable are in the range of 100 days, which was high as compared to 90-95 days in the previous quarters. The company guided that this is a temporary phenomenon and will recover by Q4
- Expect Q3 to be muted on account of customer specific issues in Telecom segment (customer impacted due to exposure to China) and delay in decision making by certain clients in the transportation segment
- De-growth in Telecom & Hi-Tech has arrested and should be flat QoQ in Q3FY20.
- Current order backlog and pipeline indicates that Q4FY20 revenue growth will be healthy. 2-3 deal wins expected in Q2FY20 should positively close in Q3FY20 as per management
- Expected ramp ups in Q4FY20 would result in higher onsite requirement which will impact margins. Additionally, softer Q3 revenue growth would also weigh on margins.
- Loans of INR 2700 Mn given to parent entity as ICD at arms length rate
- Digital contributed 39% to total revenue

Consolidated Financials (In INR Mn)

	Net Sales	% Growth	EBITDA	Margin (%)	PAT	PAT (%)	EPS	Growth (%)	P/E (x)	ROE (%)	ROCE (%)
FY18	37,471	15.4%	5,811	15.5%	5,111	13.6%	50.4	20%	32.6x	29.9%	28.5%
FY19	50,783	35.5%	9,147	18.0%	7,690	15.1%	75.8	50%	21.7x	34.8%	33.4%
FY20E	56,103	10.5%	11,146	19.9%	8,177	14.6%	80.6	6%	20.4x	29.6%	29.5%
FY21E	62,908	12.1%	12,306	19.6%	9,547	15.2%	94.2	17%	17.5x	28.2%	28.4%

Source: Company, Dalal&Broacha Research



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Other Key Concall Highlights

(i) Won deals from OEMs and Teir I companies in Transportation segment (ii) Large deal win from a European Oil & Gas Engineering company in Process Industry (iii) 6 large deals were in focus during the quarter out of which 4 were signed and 2 delayed (iv) Ramp down in one media client also weighed on Telecom, HiTech and Media

Q2FY20 Performance Highlights:

YE March (INR Mn)	Q2 FY20	Q1 FY20	Q-o-Q change %	Q2 FY19	Y-o-Y change %	Q2 FY20 Est.	Deviation %
Total Revenue (USD Mn)	198	194	2.0%	177	11.6%	202	-2.2%
Total Revenue (INR Mn)	14,021	13,475	4.1%	12,661	10.7%	14,223	-1.4%
Less:							
Cost of Revenues	8,628	8,354	3.3%	7,924	8.9%	8,842	-2.4%
SG&A Expenses	2,561	2,394	7.0%	2,449	4.6%	2,560	0.0%
Total Expenditure	11,189	10,748	4.1%	10,373	7.9%	11,402	-1.9%
EBIDTA	2,832	2,727	3.9%	2,288	23.8%	2,820	0.4%
Less: Depreciation	444	428	3.7%	270	64.4%	452	-1.7%
Operating Income	2,388	2,299	3.9%	2,018	18.3%	2,369	0.8%
Interest Paid	91	91	0.0%	4	2175.0%	91	
Other income (expense), net	469	565	(17.0%)	550	(14.7%)	569	-17.6%
Profit Before Tax	2,766	2,773	(0.3%)	2,564	7.9%	2,846	-2.8%
Tax	704	732	(3.8%)	646	9.0%	740	-4.9%
Deferred Tax	0	0		0		0	
PAT before Minority Interest	2,062	2,041	1.0%	1,918	7.5%	2,106	-2.1%
Minority Interest	4	2	N.A.	8	N.A.	0	
Share of Profit of Associates	0	0		0		0	
Profit After Tax	2,058	2,039	0.9%	1,910	7.7%	2,106	-2.3%
Basic & Diluted EPS (Rs.)	19.8	19.7	0.4%	18.5	7.2%	20.4	-2.8%
Basic & Diluted Outs tanding (mn)	104	104		104		104	
Margin Analysis %			Change In bps		Change In bps		
EBIDTA Margin	20.2%	20.2%	-4	18.1%	213	19.8%	37
Operating Margin	17.0%	17.1%	-3	15.9%	109	16.7%	38
PBT Margin	19.7%	20.6%	-85	20.3%	-52	20.0%	-29
NPM	14.7%	15.1%	-45	15.1%	-41	14.8%	-13
Effective Tax Rate (%)	25.5%	26.4%	-95	25.2%	26	26.0%	-55
Cost Analysis %			Change In bps		Change		
Cost of Revenues/ Sales	61.5%	62.0%	-46	62.6%	-105	62.2%	-63
Other income/ PBT	17.0%	20.4%	-342	21.5%	-449	20.0%	-303

Valuation & Outlook

This is the 2nd consecutive quarter of cut in revenue guidance from 12-14% to 10% due to 2 main reasons: client specific issues such as loss of client, lagged decision making as well as on-going macroeconomic issues. Owing to current headwinds, management has given a muted guidance for Q3FY20 with a revival in Q4FY20. Due to the above mentioned factors, we cut our FY20e / FY21e \$ revenue growth estimates from 13.3% / 14.5% to 9.9% / 11.6% respectively. We also cut our FY20e / FY21e EPS estimates from 85.1 / 104.3 to 80.6 / 94.2 respectively. We believe that the stock will remain under pressure in the short term, however, we remain confident in the management's ability to deliver and sail through short term headwinds. **We revise our rating from 'BUY' to 'Accumulate' on the stock and cut our target price to INR 1695 (INR 1854 earlier), which is 18x FY21e EPS.**



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Profit & Loss A/c				
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
Total Revenue	37,471	50,783	56,103	62,908
Growth %	15%	36%	10%	12%
Less:				
Employee Cost	24,600	31,788	34,853	38,649
SG&A Expenses & Other	7,060	9,848	10,104	11,952
Total Operating Expenditure	31,660	41,636	44,957	50,602
EBIDTA	5,811	9,147	11,146	12,306
Growth %	-1%	57%	22%	10%
Less: Depreciation	889	1,042	1,778	1,132
EBIT	4,922	8,105	9,368	11,173
Growth %	-5.7%	64.7%	15.6%	19.3%
Interest Paid	27	19	364	364
Non-operating Income	1,934	2,228	1,991	2,013
Profit Before tax	6,829	10,314	10,995	12,822
Tax	1,712	2,630	2,825	3,270
Net Profit	5,123	7,690	8,177	9,559
Adjusted Profit	5,111	7,690	8,177	9,559
Growth %	20%	50%	6%	17%
Reported Diluted EPS Rs	50.4	75.6	80.4	94.1
Growth %	20.3%	50.2%	6.3%	16.9%
Adjusted Diluted EPS Rs	50.4	75.8	80.6	94.2

Balance Sheet (Consolidated)				
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	205	208	203	203
Reserves & Surplus	19,159	24,583	30,298	36,981
Equity	19,364	24,791	30,501	37,184
Net Worth	19,364	24,791	30,501	37,184
Total Loans	749	896	696	496
Capital Employed	20,163	25,912	31,310	37,849
Assets				
Gross Block	2,020	2,656	4,656	5,656
Less: Depreciation	770	1,213	2,991	4,123
Net Block	1,250	1,443	1,665	1,533
Capital WIP	1	0	168	189
Investments	590	1,362	3,045	3,249
Intangible Assets	5,844	6,357	6,357	6,357
Current Assets				
Sundry Debtors	9,623	10,643	11,528	12,926
Current Investments	2,207	5,749	5,610	6,291
Cash and Bank Balance	1,589	2,242	3,897	7,374
Loans and Advances	1,429	1,536	2,132	2,516
Other Current Assets	3,806	3,739	5,614	6,609
Total Current Assets	18,654	23,909	28,781	35,716
Less: Current Liabilities & Provisions				
Sundry Creditors	1,807	1,879	2,217	2,495
Provisions	1,206	1,341	1,440	1,667
Other Current Liabilities	3,922	4,700	5,049	5,033
Total Current Liabilities & Provisions	6,935	7,920	8,707	9,195
Capital Applied	20,163	25,912	31,310	37,849

Key Ratios				
EBIDTA (%)	15.5%	18.0%	19.9%	19.6%
NPM (%)	13.6%	15.1%	14.6%	15.2%
RoE (%)	29.9%	34.8%	29.6%	28.2%
RoCE (%)	27.3%	35.2%	32.7%	32.3%
Tax Rate %	25.1%	25.5%	25.7%	25.5%
Book Value Per share (Rs.)	190.8	244.2	300.5	366.3
Valuation Ratios				
P/E (x)	32.6x	21.7x	20.4x	17.5x
EV/EBITDA	28.6x	18.1x	14.7x	13.0x
P/BV (x)	8.6x	6.7x	5.5x	4.5x
Market Cap. / Sales (x)	4.5x	3.3x	3.0x	2.7x

Key Ratios (Consolidated)				
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
Key Operating Ratios				
EBITDA Margin (%)	15.5%	18.0%	19.9%	19.6%
Tax / PBT (%)	25.1%	25.5%	25.7%	25.5%
Net Profit Margin (%)	13.6%	15.1%	14.6%	15.2%
RoE (%)	29.9%	34.8%	29.6%	28.2%
RoCE (%)	28.5%	33.4%	29.5%	28.4%
Current Ratio (x)	2.7x	3.0x	3.3x	3.9x
Dividend Payout (%)	23.8%	31.9%	30.0%	30.0%
Book Value Per Share (Rs.)	190.8	244.2	300.5	366.3
Financial Leverage Ratios				
Debt/ Equity (x)	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	215.2x	481.4x	481.4x	481.4x
Growth Indicators %				
Sales Growth (%)	15.4%	35.5%	10.5%	12.1%
EBITDA Growth (%)	(0.6%)	57.4%	21.9%	10.4%
Net Profit Growth (%)	20.3%	50.2%	6.3%	16.9%
Diluted EPS Growth (%)	20.3%	50.2%	6.3%	16.9%
Turnover Ratios				
Debtors (Days of net sales)	81	73	72	71
Creditors	29	24	26	26

Cash Flows (Consolidated)				
YE December (Rs. Mn)	FY18	FY19	FY20E	FY21E
PAT	5,111.0	7,678.0	8,164.6	9,546.8
Less: Non Operating Income	(1,934.0)	(2,228.0)	(1,990.9)	(2,013.0)
Add: Depreciation	889.0	1,042.0	1,777.9	1,132.3
Operating Profit before WC Changes	4,099.0	6,511.0	8,315.6	9,030.0
(Inc)/Dec in Current Assets	(3,339.0)	(4,602.0)	(3,217.1)	(3,458.3)
Inc/(Dec) in Current Liabilities	489.0	985.0	786.7	488.6
Net Cash From Operations	1,249.0	2,894.0	5,885.2	6,060.3
Cash Flow from Investing Activities				
(Inc)/Dec in Fixed Assets	(949.0)	(1,235.0)	(2,000.0)	(1,000.0)
(Inc)/Dec in Investment (Strategic)	0.0	0.0	(1,683.1)	(204.1)
Add: Non Operating Income	1,934.0	2,228.0	1,990.9	2,013.0
Cash From Investing Activities	525.0	(291.0)	(1,860.5)	788.5
Cash Flow from Financing Activities				
Inc/(Dec) in Total Loans	(282.0)	147.0	(200.0)	(200.0)
Dividend Paid	(1,215.0)	(2,449.0)	(2,449.4)	(2,864.0)
Net Cash from Financing Activities	(870.0)	(1,948.0)	(3,130.4)	(3,372.3)
Net Inc/Dec in cash equivalents	904.0	655.0	894.2	3,476.5
Opening Balance	685.0	1,589.0	2,242.0	3,897.2
Closing Cash and Cash Equivalents	1,589.0	2,244.0	3,136.2	7,373.8

Free Cash Flow Statement				
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
EBITDA	5,811	9,147	11,146	12,306
FC Investment	263	636	2,000	1,000
WC Changes	-1,701	-3,617	-2,430	-2,970
Depreciation Tax Shield	223	266	457	289
Tax Expenses	1,457	2,332	2,864	3,138
FCF	2,613	2,827	4,309	5,487



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